

Fitch Rates California's \$500MM GOs 'A-'; Upgrades \$13B GOs to 'A-'

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Fitch Ratings-New York-September 7, 2004: Fitch Ratings assigns an 'A-' rating to the state of California's \$500 million general obligation (GO) bonds, for bids Sept. 9. Fitch also upgrades \$13 billion outstanding GO bonds to 'A-' from 'BBB'.

The 'A' rating assigned to \$1.3 billion veterans GO bonds and the 'A+' rating assigned to \$10.9 billion GO economic recovery notes remain the same. The new bonds will mature March 1, 2005-34 and become callable Sept. 1, 2014, at par. Also upgraded, from 'BBB' to 'BBB+' are ratings on bonds issued by several agencies, as listed below, but supported by state resources.

The rating action reflects the state's financial improvement from elimination of potential crisis through the successful issuance of deficit funding bonds, set against a backdrop of improving economic indicators and revenues matching estimates. Evaluations will continue to monitor not only the economy but also expenditures control and policies directed toward achievement of structural balance.

The state's economy has stabilized and employment has begun to grow. In August, compared with 2001, the pre-recession peak, the decline was only 1.1% and, compared with August 2003, employment was up 1%. All major sectors, excluding government, registered gains, most notably 4% in construction, 3.6% in business and professional services and 1.1% in financial activities. Personal income in the first quarter of 2004 rose 5.8%, out-performing the U.S. rate of 5.2%. Expectations for the year of increases of 0.8% in employment and 5.9% in personal income match recent experience.

The budget for 2004-05 projects a general fund balance at the June 30 close of \$1.7 billion, down from \$3.1 billion at the end of 2003-04. Only around \$600 million, or less than 1% of revenues, is classified as unreserved, undesignated. The actual operating deficit is around \$3.4 billion, when use of \$2 billion in deficit bond proceeds is considered. In addition the plan includes about \$1 billion in pension obligations and over \$2 billion from transportation fund loans and diversion of local revenue. The state will be challenged to close this gap and keep expenditures, budgeted at \$1.1 billion over the May revision recommendation, under control.

After this sale, net tax-supported debt will amount to \$52.9 billion, or \$1,562 per capita and 4.4% of personal income. While these ratios are moderate, they are well above previous levels. Authorized but unissued general obligation bonds total \$34 billion.

Today's actions affect lease obligations issued by the following agencies: Public Works Board, Franchise Tax Board, East Bay State Building Authority, Los Angeles State Building Authority, Oakland State Building Authority, Riverside County Public Financing Authority, Sacramento City Financing Authority, San Bernardino Joint Powers Financing Authority, San Francisco State Building Authority, Shafter Joint Powers Financing Authority and Taft Public Financing Authority as well as series 2003 B bonds of the Golden State Tobacco Securitization Corporation.

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